



Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JANUARY - JUNE 2008



Bank of Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to “formulate and implement monetary and supervisory policies that will ensure price and financial system stability”.

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This Monetary Policy Statement is made pursuant to Part II, Section 9 of the Bank of Zambia Act No. 43 of 1996

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Executive Summary

In the second half of 2007, monetary policy remained focused on achieving a single digit inflation target of 9.0% at end-December 2007. To this end, liquidity in the banking system was to be contained by limiting broad money growth within the programmed path primarily through Open Market Operations (OMO) and the auctioning of Government securities. These BoZ actions were to be complemented by implementation of prudent fiscal policy by limiting domestic financing to 1.6% of GDP.

Overall annual inflation slowed down to 8.9% in December 2007 from 11.1% in June 2007. This inflation outturn was due to the decline in non-food inflation to 11.9% from 17.7% following relative stability in the exchange rate of the Kwacha against major currencies. However, food inflation rose to 5.9% in December 2007 from 4.8% in June 2007.

In the foreign exchange market, the exchange rate of the Kwacha against major foreign currencies was characterised by relative stability in the latter part of the period. However, there was some instability observed in the market during the first two months of the second half of the year, which was attributed to the crisis experienced in global financial markets following the collapse of the US subprime mortgage market. Against the US Dollar and the Pound sterling, the Kwacha appreciated by 1.4% and 0.6%, respectively. However, with regard to the Euro and the South African Rand, the Kwacha depreciated by 5.1% and 1.4%, respectively.

Preliminary data indicate that Zambia's merchandise trade surplus narrowed to US \$70.6 million during the second half of 2007 from US \$229.3 million recorded during the first half of 2007. This was mainly due to a rise in merchandise imports that were higher than the increase in merchandise export earnings.

In the second half of 2007, reserve money increased by 7.7% to K2,501.3 billion at the end of the review period. The end-period reserve money was below the revised target of K2,602.7 billion at end-December 2007. However, growth in broad money (M3), comprehensively defined to include foreign currency deposits, accelerated to 24.8% in the second half of 2007 from 1.0% growth in the first half of the year and was 11.5 percentage points above the projected performance target of 11.3% at end-December 2007. In absolute terms, M3 growth increased to K10,674.9 billion at end-December 2007 from K8,557.2 billion at end-June. This was due to the increase in both net foreign assets (NFA) (28.3%, which contributed 13.1 percentage points to M3 growth) and net domestic assets (NDA) (21.7%, which contributed 11.7 percentage points to M3 growth).

On the fiscal front, domestic fiscal performance was mixed in that revenue and expenditure were higher and lower than programmed, respectively. Preliminary data indicate that the domestic budget recorded a deficit of K259.1 billion in the review period, 60.3% lower than the programmed deficit of K653.3 billion. Both higher revenue and lower than programmed expenditure explained this outturn.

Developments in interest rates were mixed in the second half of 2007. Yield rates on Government securities increased while commercial banks lending rates remained unchanged. However, commercial banks savings and deposit rates declined during the period under review.

The monetary policy objective for the first half of 2008 is to achieve an annual inflation target of no more than 8.4% at end-June 2008, consistent with an end-year target of 7.0%. The challenges to the achievement of the inflation target are: management of the liquidity arising from the unspent Government balances from the 2007 fiscal period; the cost-push effects of higher prices of petroleum products owing to high oil prices on the international market and higher utility bills; and the adverse weather conditions experienced in the 2007/2008 agriculture season, which may negatively affect food production and supply in the 2008/09 consumption period.

In the next two years, the conduct of monetary policy will continue to be guided by market oriented principles. To this effect, the Bank of Zambia will continue to rely on market-based instruments of monetary policy to limit the growth in reserve and broad money, thereby contributing to the achievement of the inflation objective. In addition, the monetary policy framework will continue to be reviewed to take account of developments in the financial markets and an appropriate framework implemented.

1.0 Introduction

This Monetary Policy Statement outlines targets and challenges faced by the Bank of Zambia (BoZ) during the second half of 2007 and assesses the monetary policy outcome. In addition, it explains how the Bank of Zambia intends to achieve the inflation objective during the next 6 months ending June 2008. The statement concludes with the Bank of Zambia's intentions on formulating and implementing monetary policy in the next 2 years.

- In order to achieve the end-year inflation target of 9.0%, it was envisaged that during the second half of 2007 (see Table 1):
- overall inflation was to be no more than 3.3%;
- reserve money growth was to be no more than 11.3%; and
- broad money growth was not to exceed 11.3%.

During the period under review, the BoZ faced a number of challenges in implementing monetary policy. The increase in the domestic prices of beef and beef products as well as cereals contributed to food inflationary pressures. In addition, the high oil prices in the international market and disruptions in the domestic fuel supplies and the management of the liquidity arising from the expected increased Government spending in the second half of 2007, added to these inflationary pressures.

To address these challenges, the BoZ was to continue implementing appropriate monetary policy during the period July to December 2007 to keep money supply growth within programmed levels with a view to achieving the inflation objective. The BoZ continued to rely on indirect instruments of monetary control, notably, Open Market Operations (OMO). This was to be complimented by prudent fiscal management.

Table 1: Selected Monetary Indicators, Dec 2004 - Dec 2007 (percent change)

Description	2004	2005	2006		JulyDec 2006*	
	Actual	Actual	Programmed	Actual	Programmed	Actual
Overall Inflation	17.5	15.9	10.0	8.2	3.3	4.2
<i>Non-food Inflation</i>	<i>18.9</i>	<i>14.0</i>	<i>8.3</i>	<i>18.1</i>	<i>2.4</i>	<i>4.1</i>
<i>Food Inflation</i>	<i>16.3</i>	<i>17.5</i>	<i>10.0</i>	<i>-0.2</i>	<i>4.3</i>	<i>4.3</i>
Reserve Money	21.6	16.2	10.5	29.6	12.0	7.7
Broad Money	30.3	0.4	14.6	45.1	11.3	24.8
Domestic Credit	20.5	6.0	10.0	25.7	-	26.1
<i>Government</i>	<i>2.6</i>	<i>-5.0</i>	<i>5.2</i>	<i>-0.8</i>	-	<i>24.8</i>
<i>Public Enterprises</i>	<i>72.4</i>	<i>15.1</i>	<i>4.2</i>	<i>-2.6</i>	-	<i>53.7</i>
<i>Private Sector</i>	<i>47.2</i>	<i>18.7</i>	<i>15.4</i>	<i>54.7</i>	-	<i>25.0</i>
Domestic Financing (% of GDP)	1.9	1.9	1.8	2.4	1.2	0.6

Source: Central Statistical Office, The Monthly and Bank of Zambia Statistics Fortnightly
- Indicates no target under the economic programme

2.0 Assessment of Monetary Policy Outcome, July December, 2007

In the second half of 2007, monetary policy was aimed at achieving a single digit end of period inflation target of 9.0%. To this end, liquidity in the banking system was to be contained to limit broad money growth within the programmed path (see Table 1). To achieve this, the BoZ relied mainly on OMO and the auctioning of Government securities. These BoZ actions were complemented by prudent fiscal policy. Further assisting in moderating inflationary pressures was the appreciation in the exchange rate of the Kwacha against major currencies. The foreign exchange market was characterised by increased supply of foreign exchange arising from the high metal export earnings, following the sustained high copper prices on the world metal market. The stability in domestic fuel prices in the last three months of the second half of 2007 further moderated these pressures.

During the period under review, annual overall inflation decreased from 11.1% in June 2007 to 8.9% in December 2007, 0.1 percentage point below the end-year target of 9.0%. While developments in reserve money were favourable, broad money growth accelerated in the period under review, reflecting increased expenditure and the continued build-up of international reserves. Developments in interest rates were mixed, with yield rates on Government securities rising, reflecting aggressive open market operations, and commercial banks lending interest rates remaining stable. The foreign exchange market remained relatively stable during this period.

2.1 Overall inflation

Overall annual inflation slowed down to single digit level in the second half of 2007, assisted by the appreciation in the exchange rate of the Kwacha against major foreign currencies. Inflation declined to 8.9% in December 2007 from 11.1% in June 2007 after peaking at 12.7% in March 2007. This inflation outturn was in line with the adjusted target of no more than 9.0% at end-December 2007.

The low inflationary pressures observed during the second half of the year were largely due to the decline in non-food inflation to 11.9% from 17.7%, despite an increase in food inflation to 5.9% in December 2007 from 4.8% in June 2007 (see Chart 1 and Table 2).

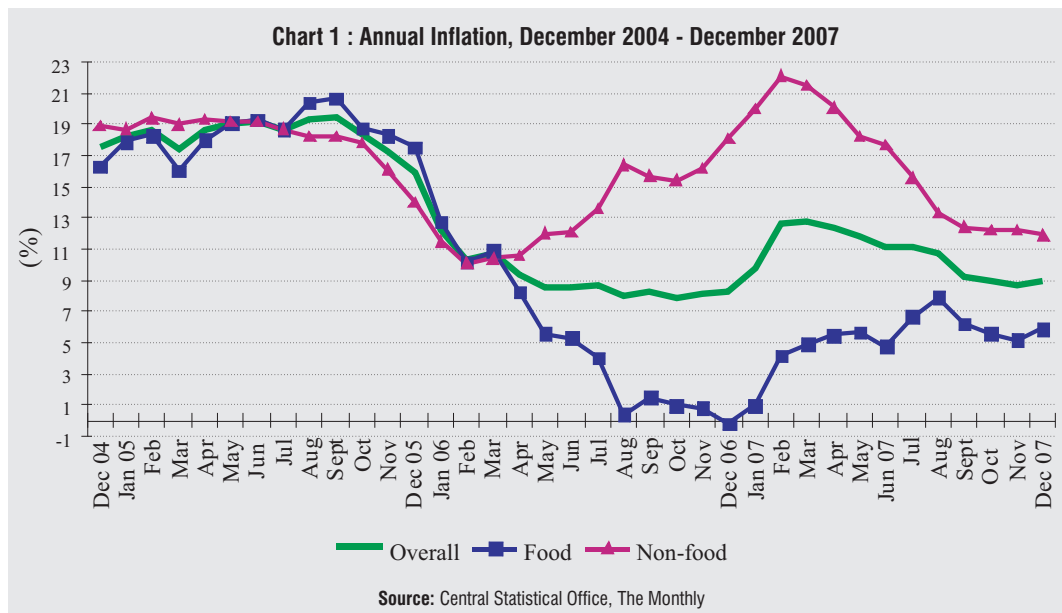


Table 2: Inflation Outturn [%] - Dec 2004 Dec 2007

Description	Monthly			Annual			Year-to-date		
	Overall	Food	Non-food	Overall	Food	Non-food	Overall	Food	Non-food
Dec 04	2.2	3.0	1.3	17.5	17.5	18.9	17.5	16.3	18.9
Dec 05	1.0	2.4	-0.6	15.9	15.9	14.0	15.9	17.5	14.0
Jan 06	-0.1	-0.5	0.5	12.2	12.8	11.5	-0.1	-0.5	0.5
Feb 06	-0.2	-1.0	0.8	10.3	10.2	10.1	-0.3	-1.6	1.3
Mar 06	0.8	0.6	0.9	10.7	10.9	10.4	0.5	-1.0	2.2
Apr 06	0.2	-1.1	0.5	9.4	8.3	10.6	0.7	-2.0	3.8
May 06	0.4	-1.4	2.4	8.6	5.6	12.0	1.1	-3.4	6.3
Jun 06	0.8	0.1	1.5	8.5	5.3	12.1	1.9	-3.3	7.9
Jul 06	0.3	-1.1	1.8	8.7	4.3	13.6	2.1	-4.4	9.9
Aug 06	0.8	-1.5	3.0	8.0	0.4	16.4	3.0	-5.8	13.2
Sept 06	1.6	1.9	1.4	8.2	1.5	15.7	4.7	-4.0	14.8
Oct 06	0.7	0.7	0.7	7.9	1.0	15.4	5.5	-3.3	15.5
Nov 06	1.5	1.9	1.2	8.1	0.8	16.2	7.0	-1.5	16.9
Dec 06	1.2	1.3	1.0	8.2	-0.2	18.1	8.2	-0.2	18.1
Jan 07	1.4	0.7	2.1	9.8	1.0	20.0	1.4	0.7	2.1
Feb 07	2.3	2.0	2.6	12.6	4.2	22.1	3.7	2.8	4.7
Mar 07	0.8	1.3	0.4	12.7	4.9	21.5	4.6	4.1	5.1
Apr 07	-0.1	-0.5	0.4	12.4	5.5	20.1	4.6	3.6	5.5
May 07	-0.2	-1.3	0.8	11.8	5.7	18.2	4.3	2.3	6.3
Jun 07	0.2	-0.7	1.1	11.1	4.8	17.7	4.7	1.5	7.5
Jul 07	0.3	0.6	0.0	11.2	6.7	15.6	4.9	2.2	7.5
Aug 07	0.4	-0.3	1.0	10.7	7.9	13.3	5.3	1.9	8.5
Sept 07	0.4	0.3	0.6	9.3	6.2	12.4	5.7	2.2	9.2
Oct 07	0.3	0.2	0.5	9.0	5.6	12.2	6.1	2.3	9.8
Nov 07	1.3	1.4	1.2	8.7	5.2	12.2	7.5	3.8	11.1
Dec 07	1.4	2.0	0.8	8.9	5.9	11.9	8.9	5.9	11.9

Source: Central Statistical Office Monthly Bulletins

2.2 Non-Food Inflation

Non-food inflation fell throughout the second half of 2007. By end-December 2007, annual non-food inflation declined to 11.9% from 17.7% recorded in June 2007 and was 1.2 percentage points above the target of 10.7% (see Chart 1 and Table 2). This outturn was favourable when compared with the 18.1% recorded in December 2006. The relative stability of the Kwacha against major currencies during the period under review and the relative stable fuel prices during the last quarter of the year helped dampen non-food inflationary pressures.

2.3 Food Inflation

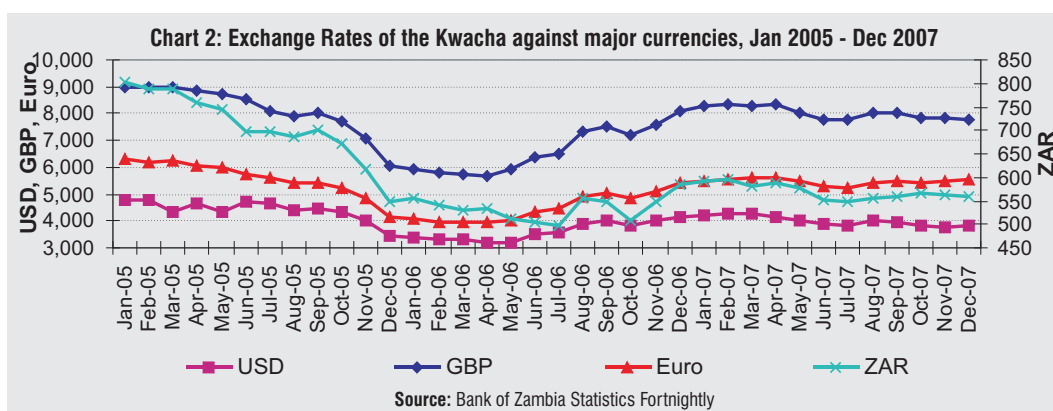
Annual food inflation rose to 5.9% at end-December 2007 from 4.8% in June 2007 (see Table 2). However, the food inflation outturn at the end of the period under review was lower than the end period target of 7.3%.

For most part of the review period, the rise in annual food inflation was attributed to higher prices of beef and beef products following inadequate supply occasioned by the ban on the movement of livestock to and from Southern Province. The restriction on the movement of livestock was as a result of the outbreak of Contagious Bovine Pleural Pneumonia (CBPP). The restriction was enforced throughout the year (although it was lifted for intra province movements during the period under review) as a preventive measure against the spread of the cattle disease. In addition, prices of maize grain, maize meal, rice, wheat flour, millet, tubers, kapenta, dried fish and dried beans rose due to seasonal factors and higher transportation costs.

2.4 Foreign Exchange Market

The foreign exchange market was characterised by relative stability in the reviewed period. However, there was some instability observed in the market during the first two months of the second half of the year. This was attributed to the crisis experienced in the global financial markets following the collapse of the US subprime mortgage market. The volatility in the global financial market, in turn, led to the dampening of investor interest for emerging market financial assets, triggering a massive sell off of these assets and subsequently led to the depreciation of most of emerging market currencies, including the Kwacha. Nevertheless, in the latter part of the review period, relative stability returned to the market as investors' confidence in emerging market financial assets rebound reflecting rather limited impact of the US subprime mortgage crisis on emerging market economies. This resulted in increased supply of foreign exchange in the domestic market from foreign portfolio investors, which partially contributed to the Kwacha recouping some of the losses experienced in the earlier part of the review period.

Overall, the Kwacha ended the second half of 2007 marginally stronger against the US Dollar and Pound Sterling. However, the Kwacha was relatively weaker against the South African Rand and the Euro. Against the US Dollar and the Pound, the Kwacha appreciated by 1.4% and 0.6% to close the second half of the year at monthly averages of K3,835.75/US\$ and K7,748.28/£ in December 2007, respectively. However, the appreciation recorded during the review period was lower than the first half's appreciation of 5.6% and 3.1% recorded against the US Dollar and Pound Sterling, respectively. With regard to the Euro and South African Rand, the Kwacha depreciated by 5.1% and 1.4% to respective monthly averages of K5,532.27/€ and K558.82/ZAR in December 2007. The depreciation recorded against these currencies compares unfavourably to appreciations of 2.4% and 5.3% recorded against the Euro and the South African currency in the first half of 2007, respectively (see Chart 2). The appreciation of the Kwacha against the US Dollar is partly attributed to the general weakness that has characterised the US Dollar in global markets in recent periods while the depreciation of the Kwacha against the South African Rand is attributed to increased demand for the Rand that tends to characterise the foreign exchange market in the second half of the year, particularly during the festive period.



Higher traditional and non-traditional export receipts coupled with continued interest from foreign portfolio investors in the domestic assets underpinned the increased supply of foreign exchange on the market in the period under review compared with the first half of 2007. The increase in the supply of foreign exchange on the market was reflected in the increased volumes of foreign exchange transactions in the second half of 2007. In this regard, commercial banks' purchases and sales of foreign exchange from and to non-banks increased to US \$2,111.8 million and US \$1,873.9 million in the second half of the year from US \$1,729.9 million and US\$1,461.1 million in the first half, respectively. However, on a net basis, commercial banks' purchases declined to US \$237.9 million from US \$268.8 million in the first half.

With respect to the inter-bank market, commercial banks exchanged a total amount of US \$1,406.4 million, up from US \$1,386.7 million in the first half of 2007. With regard to commercial banks transactions with the Bank of Zambia, the Bank purchased a total of US \$32.5 million down from US \$109.4 million recorded in the preceding period. However, foreign exchange sales to the market by the Bank of Zambia increased to US \$79.1 million from US \$43.0 million over the same period. Hence, the Bank of Zambia recorded net sales of US

\$46.6 million during the review period compared with net purchases of US \$66.4 million recorded in the first half of 2007. The increase in foreign exchange sales by the Bank of Zambia was aimed at minimising the volatility in the foreign exchange market arising from the subprime induced crisis in the global financial markets during the earlier part of the review period.

With regard to transactions in other foreign currencies, the South African Rand continued to be the most actively traded foreign currency after the US Dollar owing to the strong trade and investment ties of the Zambian and South African economies. Furthermore, demand for the South African Rand outstripped supply with commercial bank sales to the non-bank sector rising to ZAR1,671.3 million in the second half of 2007 from ZAR1,282.8 million in the first half of the year. Commercial banks purchases of the Rand from non-banks also increased to ZAR583.1 million from ZAR404.4 million over the same period. Hence, on a net basis, commercial banks sales soared to ZAR1,088.2 million during the period under review from ZAR878.4 million in the previous period.

Commercial banks purchases of the Euro from non-banks rose to €88.5 million in the second half of 2007 from €69.6 million in the previous period while the banks' sales of the Euro also increased to €54.0 million from €41.3 million making it the third most traded foreign currency in the domestic market. The British Pound remained the least of the major traded foreign currencies in the domestic market though commercial banks purchases of the British currency from non-banks rose to £29.3 million during the period under review from £14.6 million in the previous period. The banks' sales of the Pound also rose to £27.3 million from £19.1 million over the same period.

2.5 International Trade Developments

Preliminary data indicate that Zambia's merchandise trade surplus narrowed to US \$70.6 million during the second half of 2007 from US \$229.3 million recorded during the first half of 2007 (see Appendix III, Table 1). This was mainly due to a rise in merchandise imports that were higher than the increase in merchandise export earnings. Merchandise export earnings increased by 19.5% to US \$2,354.2 million from US \$1,970.5 million registered during the first half of 2007, reflecting an increase in both traditional (copper and cobalt) and non-traditional export earnings. Copper export earnings at US \$1,722.5 million were 20.6% higher than US \$1,427.9 million recorded during the first half of 2007 largely on account of a 9.8% increase in export volumes and the average realised price. The increase in export volumes was mainly attributed to the increase in copper production during the second half of 2007. Cobalt export earnings rose by 20.0% to US \$136.3 million from US \$113.6 million in the previous period. The realised price of cobalt marginally fell to US \$24.08 per pound from US \$24.83 per pound recorded in the first half of 2007 (see Appendix III, Table 1 and 2).

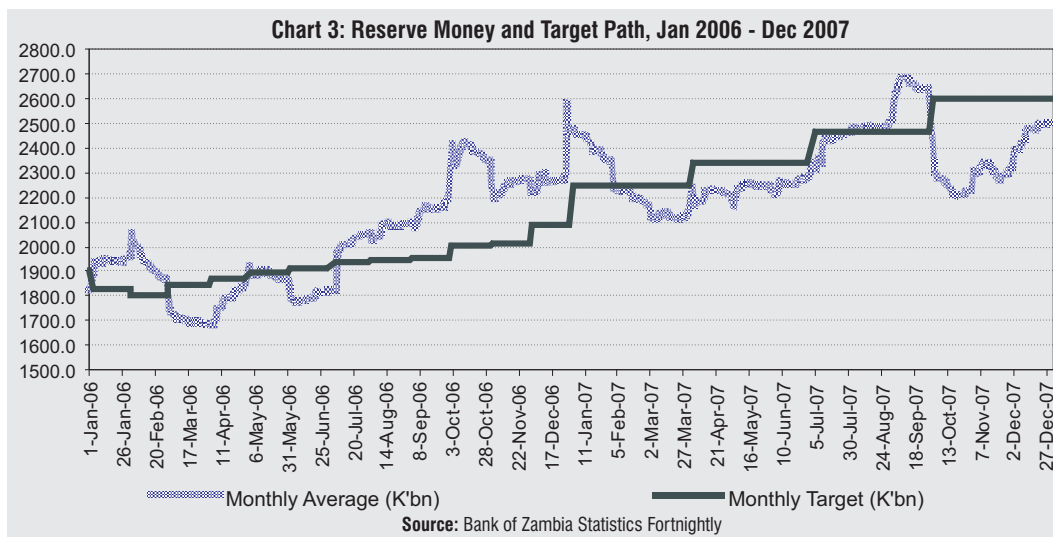
During the same period, non-traditional export earnings, at US \$495.4 million were 15.5% higher than US \$429.0 million realised during the first half of 2007. Increased earnings arising from the export of copper wire, white spoon sugar, burley tobacco, cotton lint, electric cables and fresh flowers contributed to this outturn. However, a decline was recorded in exports of products such as cotton yarn, fresh fruits, vegetables, gemstones, gasoil and petroleum oils.

The second half of 2007 registered a 31.2% rise in the imports bill to US \$2,283.5 million from US \$1,741.2 million recorded during the first half of 2007. This was mainly explained by increased imports of fertiliser (56.1%), iron and steel (55.2%), food items (45.6%), industrial equipment and boilers (42.1%), electrical machinery and equipment (41.3%), vehicles (35.2%), chemicals (30.0%), plastic and rubber products (25.7%), petroleum products (21.0%), and paper and paper products (16.8%), (see Appendix III, Table 3).

2.6 Monetary and Credit Developments

In the second half of 2007, reserve money opened the period at K2,323.3 billion and was projected to increase by 11.3% to K2,602.7 billion at end-December. In order to achieve the targeted reserve money growth rate, the Bank of Zambia relied on open market operations. In this regard, the Bank used term deposits and repurchase agreements as well as sales of Government securities to withdraw excess liquidity from the market. During the review period, the statutory reserve ratio was reduced to 8.0% from 14.0% effective 1st October 2007 while the core liquid assets ratio for commercial banks was maintained at 9.0%.

Reserve money increased by 7.7% to K2,501.3 billion at the end of the review period. The growth in reserve money was 4.3 percentage points below the projected growth rate. This reversed the decline of 6.2% recorded during the first half of 2007 (see Chart 3). Accounting for most of the increase in reserve money was an expansion of K160.1 billion in net foreign assets and net domestic credit, which contributed K17.9 billion (see Table 4 in Appendix III). The expansion in net foreign assets is a reflection of the continued favourable performance of the external sector.



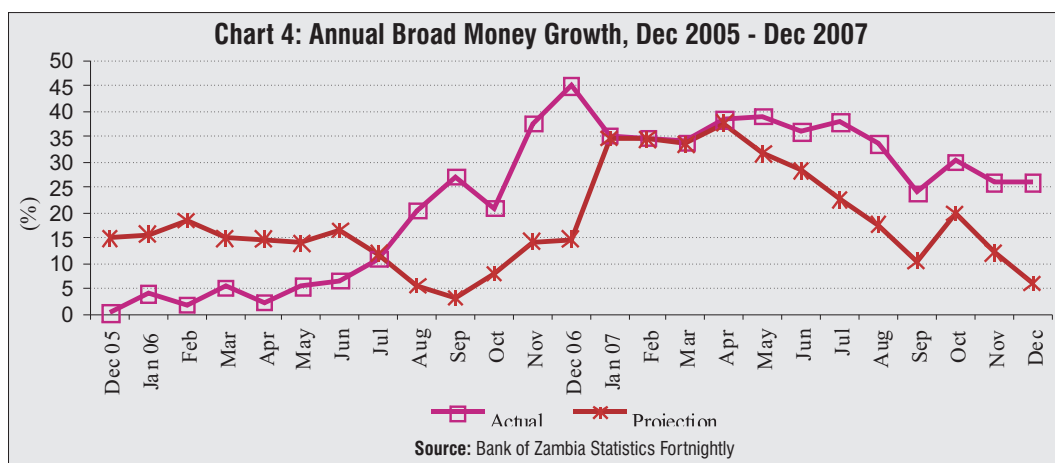
Broad money (M3) growth, comprehensively defined to include foreign currency deposits, accelerated in the second half and remained above the projected growth path. M3 growth increased to 24.8% in the second half of 2007 from 1.0% growth in the first half of the year and was 11.5 percentage points above the projected performance target of 11.3% at end-December 2007 from the end-June target. In absolute terms, M3 growth increased to K10,674.9 billion at end-December 2007 from K8,557.2 billion at end-June and was K1,689.3 billion above the end period target of K8,985.6 billion. The upturn in M3 growth was due to the increase in both net foreign assets (NFA) and net domestic assets (NDA). NFA accounted for the largest growth with a 28.3% expansion, which contributed 13.1 percentage points to M3 growth while NDA grew by 21.7% and contributed 11.7 percentage points to the growth in M3. Excluding foreign exchange deposits that grew by 16.2%, broad money expanded by 29.5% in the period under review compared to a 4.3% decline observed in the first half of 2007.

On an annual basis, M3 growth slowed down to 25.9% at the end of December 2007 from 36.1% recorded at the end of the first half (see Chart 4). This was 19.9 percentage points above the target of 6.0%. The annual growth in M3 was explained by increases in NFA and NDA. NFA expanded by 28.1% at the end of the period under review (contributing 13.1 percentage points to M3 expansion), mainly reflecting continued favourable performance of the external sector, resulting in the build-up of international reserves. NDA increased by 24.0% (contributing 12.8 percentage points to M3 growth). Excluding foreign currency deposits, which increased by 30.4%, annual money supply growth slowed down to 23.8% from 28.8% at end-June 2007 (see Table 3).

Table 3: Broad Money Developments (in K'bn unless otherwise stated), Dec 2005 - Dec 2007

Description	Dec 2005	Jun 2006	Dec 2006	Jun 2007	Dec 2007
Broad Money (M3)	5,841.1	6,289.4	8,476.8	8,557.2	10,674.9
o/w Foreign Exchange Deposits	1,981.2	2,008.0	2,714.0	3,044.6	3,538.4
M3 (excl. Foreign Exchange Deposits)	3,859.9	4,281.4	5,762.8	5,512.6	7,136.5
6-Month Change in M3 (%)	-1.0	7.7	34.8	1.0	24.8
6-Month Change in Foreign Exchange Deposits (%)	-10.8	1.4	35.2	12.2	16.2
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	5.0	10.9	34.6	-4.3	29.5
Annual Change in M3 (%)	0.4	6.6	45.1	36.1	25.9
Annual Change in Foreign Exchange Deposits (%)	-18.8	-9.6	34.0	51.6	30.4
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	14.2	16.5	49.3	28.8	23.8

Source: Bank of Zambia Statistics Fortnightly



Total domestic credit, comprehensively defined to include foreign currency loans, increased by 26.1% in the second half of 2007 compared with a 5.0% decline in the first half. The rise in domestic credit was largely attributed to increases in credit to the private sector, public enterprises, and the Government. Lending to the private enterprises increased by 25.8% compared with a 12.5% expansion in the first half and accounted for 14.6 percentage points to the increase in total domestic credit. This was followed by growth in net claims on central government, which increased to 24.8% from negative 37.2% at the end of the first half to contribute 6.1 percentage points to the increase in domestic credit. Claims on households slowed down to 19.9% at end December 2007 from 25.7% at the end of the first half and accounted for 2.6 percentage points to domestic credit growth. Whilst lending to public enterprises increased by 53.7% and contributed 2.2 percentage points to credit growth in the second half of 2007. With the foreign currency denominated loans increasing by 12.5%, the Kwacha denominated loans grew by 30.8% compared to a decline of 10.5% observed in the first half of 2007.

On an annual basis, domestic credit increased to 19.8% in the second half from 2.6% in the first half. This development, however, was a slow down compared with the 25.8% recorded at end-December 2006 largely due to the decline in net claims on central government which fell by 21.6%. This was despite a 41.5% increase in private enterprises credit (which ranks highest in absolute terms) as well as 50.8%, 68.7%, and 38.9% credit expansion in respect of households, public enterprises, and non-bank financial institutions, respectively. Nevertheless, domestic credit growth of 19.8% in the second half was higher compared with a 2.6% recorded in the first half of 2007. Excluding foreign currency loans, which expanded by 29.8%, growth in domestic credit denominated in Kwacha increased to 17.1% from negative 5.2% in the first half (see Table 4).

Table 4: Domestic Credit Developments (in K' bn unless otherwise stated)

Description	Dec 05	Jun 06	Dec 06	Jun 07	Dec 07
Domestic Credit (DC)	5,054.4	5,885.7	6,358.1	6,039.1	7,616.6
O/w Foreign Exchange Credit	773.6	1,155.6	1,346.4	1,553.3	1,747.7
DC (Excl. FX Credit)	4,280.8	4,730.1	5,011.7	4,485.8	5,868.9
6-Month Change in Domestic Credit	-9.2	16.4	8.0	-5.0	26.1
6-Month Change in Foreign Exchange Credit	-40.4	49.4	16.5	15.4	12.5
6-Month Change in DC (Excl. Foreign Exchange Credit)	0.2	10.5	6.0	-10.5	30.8
Annual Change in Domestic Credit	6.0	5.7	25.8	2.6	19.8
Annual Change in Foreign Exchange Credit	-10.9	-11.0	74.0	34.4	29.8
Annual Change in DC (Excl. Foreign Exchange Credit)	9.8	10.7	17.1	-5.2	17.1

Source: Bank of Zambia Statistics Fortnightly

During the period under review, loans and advances by commercial banks expanded by 29.7% compared with a 13.2% increase observed in the first half of 2007 and a 27.1% increase recorded in the second half of 2006. The largest percentage increase to a single sector was the lending to the energy and water development sector at 117.8%, underscoring, the participation of local financial institutions in financing strategic imports, such as crude oil. Other notable increases were lending to the real estate and construction sectors which increased by 50.6% and 33.8%, respectively, an indication of the increasing investment in the property market as one of the alternative saving avenues by an increasing number of

Zambians. Lending to the household sector also increased by 33.7%, reflecting commercial banks' desire to diversify their loans portfolios and also enhance the sector's participation in economic activities through consumer expenditures, including home ownership schemes. Increases were also posted in the manufacturing (23.5%), agricultural (16.7%) and community and personal services (16.0%) sectors. Marginal increases in lending were recorded in the mining (2.4%), and wholesale and retail trade (1.8%) sectors. However, financial services, restaurants and hotels, and transport and communications sectors fell by 25.2%, 15.4%, and 7.1%, respectively.

In terms of shares of commercial banks loans and advances, the agricultural sector continued to dominate as it accounted for 21.0%, down from 23.4% at end-June 2007 and 27.2% at end-December 2007. Other major shares were personal loans (14.7%), wholesale and retail trade (10.8%), and manufacturing (10.7%) sectors (see Appendix III, Table 6 and Charts 1 to 4).

2.7 Fiscal Developments

Domestic fiscal performance during the second half of 2007 was mixed. Preliminary data show that revenue was higher while expenditure was lower than programmed. Consequently, the domestic budget recorded a deficit of K259.1 billion, 60.3% lower than the programmed deficit of K653.3 billion..

The performance during the second half was consistent with the outturn for the year as a whole. During the year, the domestic budget recorded a deficit of K419.8 billion, and was 53.9% lower than the programmed deficit of K909.9 billion, owing largely to higher than programmed revenue performance (see Table 9 in Appendix III).

Following a buoyant tax revenue performance, total revenue, which includes domestic revenue and programme grants at K4,843.3 billion was 6.5% above the second half target of K4,549.3 billion. Accordingly, tax revenue was K4,339.5 billion, and was 6.5% above the programmed level. In addition, non-tax revenue and programme grants at K194.8 billion and K309.0 billion were 14.3% and 2.1% higher than their targets, respectively. On a cumulative basis, as at end-December 2007, total revenue at K9,105.5 billion was 4.6% above the target of K8,707.4 billion. Similarly, total domestic revenue at K8,523.6 billion was 4.9% above the target of K8,125.1 billion, following a buoyant tax revenue outturn.

Total expenditure during the second half at K5,102.4 billion was 1.9% below the target of K5,202.6 billion, explained mainly by lower domestic capital expenditure. Domestic capital expenditures were K571.0 billion, against the programmed expenditure of K714.7 billion. In addition, expenditures on recurrent departmental charges and the public sector reform programme were below their targeted levels by 5.1% and 70.4%, respectively. However, current expenditures in general were above target by 1.0%, largely due to higher than programmed payments for personal emoluments and interest on external and domestic debt. For the year 2007, total domestic expenditures at K9,525.3 billion were 1.0% below the projection of K9,617.3 billion. Explaining this outturn was the lower than programmed domestic capital expenditure.

On the financing side, the Government borrowed K100.0 billion, through draw-downs of K80.0 billion and K20.0 billion on the bond proceeds and Treasury bill sterilisation accounts, respectively. This was against the programmed financing of K403.4 billion for the second half of 2007. Cumulatively for 2007, domestic financing at K454.0 billion was 38.9% lower than the projection of K742.5 billion. The financing was achieved by drawing down the sterilisation and bond proceeds accounts by K266.9 billion and K187.1 billion, respectively. Domestic financing as a percentage of GDP was 0.6% against the target of 1.2%. This outturn reflected the lower than programmed domestic capital expenditures.

2.8 Money and Capital Markets Developments

2.8.1 Money Markets

Government Securities Market

In the second half of 2007, demand for Treasury bills weakened while demand for Government bonds strengthened on account of the relatively high yield rates on bonds and declining inflation. Average auction sizes on Treasury bills and bonds remained unchanged at K100.0 billion and K120.0 billion, respectively. However, demand for Treasury bills fell short of average amounts on offer, with the weekly average subscription rate declining to 76.6% in the second half of the year from 113.7% in the first half of 2007. While demand for Treasury

bills was relatively low in the second half of 2007, the demand for Government bonds picked up as reflected in a higher monthly average subscription rate of 193.8%, up from an average of 83.4% in the first half of 2007 (see Appendix III, Table 5). With regard to cumulative amounts, a total of K2,700.0 billion was offered in Treasury bills, up from K2,600.0 billion in the first half of 2007. The cumulative amount of bids received from the market was K2,100.3 billion, down from a cumulative total of K3,056.6 billion received during the first half of the year. This reflected a shortfall of K599.7 billion on a cumulative basis during the review period compared with an excess cumulative bid amount of K456.6 billion recorded in the preceding period. On bond auctions, the cumulative amount remained unchanged at K720.0 billion, but the cumulative bid amount increased to K1,094.0 billion from K622.0 billion, thereby resulting in an excess demand of K374.0 billion on a cumulative basis compared to a cumulative shortfall of K98.0 billion recorded in the first half of 2007.

The relatively high yield rates on Government bonds as well as the reduction in the rate of inflation encouraged investors to lock their funds in long term Government securities. Further, the introduction of long-dated bonds of 7, 10 and 15 years in the second half of 2007 boosted investors demand for Government bonds as yields on these instruments were particularly attractive.

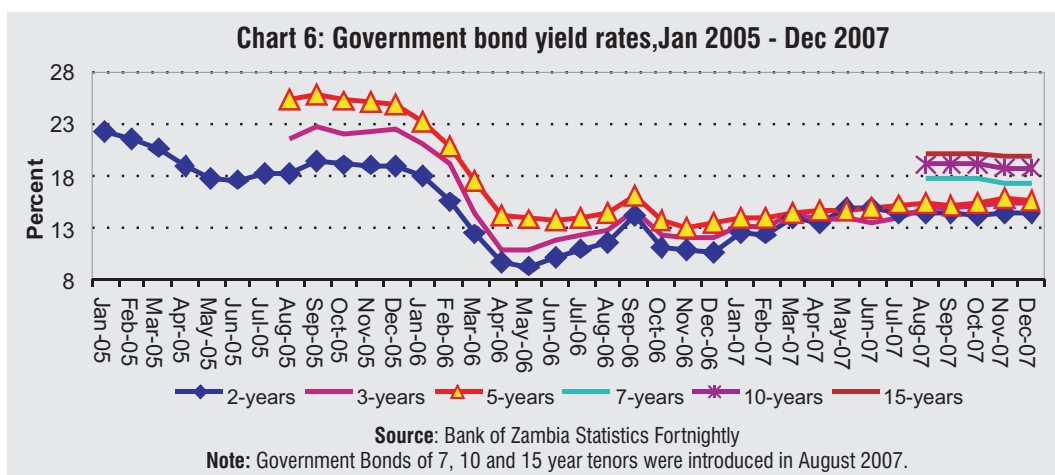
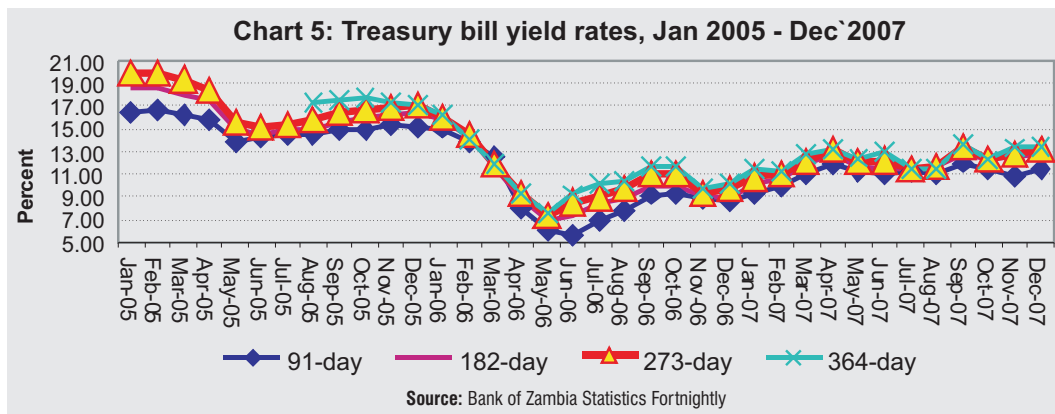
Stock of Government Securities

The stock of Government securities increased by 4.9% to K7,595.2 billion at end-December 2007 from K7,365.2 billion at end-June 2007, and this was lower than the 7.9% registered in the first half of 2007. The growth in the amount of outstanding Government securities arose exclusively from an increase in the stock of Government bonds by 12.0% (K450.4 billion) to K4,496.2 billion, which contributed 6.1% to the increase in the overall stock of Government securities. However, the amount of outstanding Treasury bills declined by 2.5% (K88.8 billion) to K3,399.1 billion, thereby slowing down the increased in the stock of Government securities by 1.2%.

The increase in the stock of Government bonds can be attributed to increased purchases by non-bank investors, particularly foreign investors as reflected by the rise in their holdings to K319.4 billion at end- December 2007 from K209.5 billion at end-June 2007. With regard to Treasury bills, the reduction can be partly attributed to the fall in the amount held by foreign investors to K511.0 billion at the end of the review period from K646.2 billion at the close of the preceding period. In this regard, foreign investors reallocated their Government securities portfolio to Government bonds because of the relatively high bond yields rates. On an overall basis, foreign investors' holdings of Government securities declined to K830.4 billion at end-December 2007 from K855.7 billion at end-June 2007. The reduction in foreign investors' holdings of Government securities was reflected in the decline in the share of outstanding Government securities held by non-banks to 38.8% at end-December 2007 from 39.9% at end-June 2007. However, the share of outstanding Government securities held by commercial banks increased to 35.6% from 33.7% over the same period.

Yield Rates on Government Securities

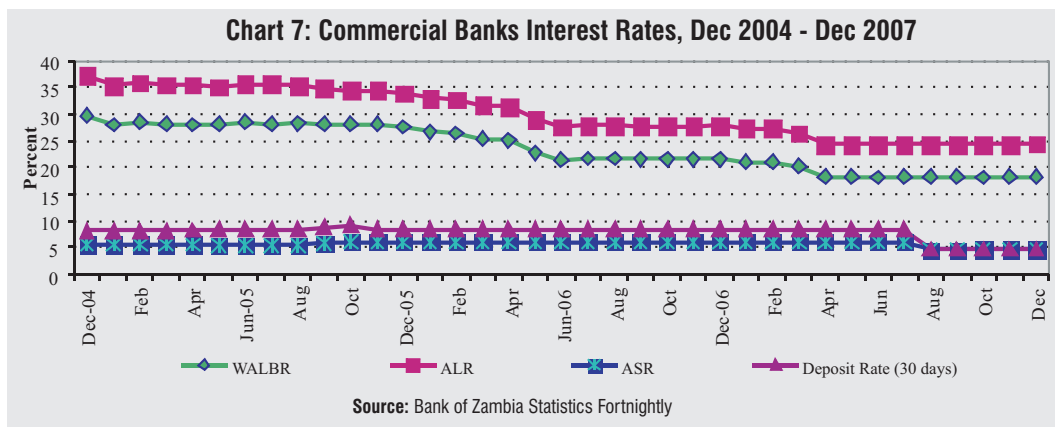
Yield rates on both Treasury bills and Government bonds increased during the review period relative to the preceding period. The relatively low demand for Treasury bills coupled with the tight monetary policy stance pursued during the review period caused the upward movement in Treasury bill yield rates. With regard to Government bond yield rates, the increase in yield rates can be attributed to the relatively tight monetary policy as the rise in investor demand for bonds failed to halt the increase in yield rates. Hence, the weighted average yield rate on Treasury bills rose to 12.9% in December from 11.9% in June while the composite yield rate for Government bonds increased to an average of 15.6% from 14.5% over the same period (see Charts 5 and 6).



2. 8.2 Commercial Banks Interest Rates

During the period July to December 2007, commercial banks lending interest rates increased marginally while savings and deposit rates declined. The average lending rate (ALR) increased by 0.1 percentage point to 24.4% from 24.3% in June. In contrast, savings and deposit rates declined with the average savings rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts above K20 million at 4.8% each from 6.1% and 8.4%, respectively at the end of the first half (see Chart 7).

Following the increase in the average lending rate and the decline in the average savings interest rate, the spread between them increased, to 19.6 percentage points in the second half of 2007 from 18.2 percentage points in June 2007. Similarly, the spread between lending rates and the 30-day deposit rates increased to 19.6 percentage points from 15.9 percentage points at end-June 2007.



2.8.3 Capital Market Developments

Equity Market

In the period under review, activities at the Lusaka Stock Exchange (LuSE) continued to be favourable underscoring the strong economic fundamentals the country continues to experience. The total number of trades increased by 22.5% to 3,412 from 2,785 recorded in the first half of 2007. Domestic investors' participation in the market accounted for the most increase (94.1%) amounting to 3,209 trades from 2,621 in the previous period compared with 203 trades (up from 164) in respect of foreign portfolio investors that accounted for 5.9%. However, foreign portfolio investors accounted for the largest increase in the volume of shares traded, as it rose by 29.5% to 832.3 million shares from 642.8 million shares in the second half of 2007 compared with a 22.8% increase in the volume of shares traded in respect of domestic investors to 730.2 million from 594.8 million shares. These changes translated into an increase in the total volume of trades by 26.3% to 1,562.6 million of shares from 1,237.6 million traded in the previous half (see Appendix III Table 8a).

In terms of the turnover, the activities above translated into a decline in the total sales by 32.6% to K117.9 billion from K175.0 billion recorded in the first half largely due to the decline in the value of sales in respect of domestic investors by 46.5% to K71.5 billion from K133.6 billion. Nevertheless, the foreign portfolio investors' turnover increased by 12.0% to K46.4 billion from K41.5 billion recorded in the previous half (see Appendix III, Table 8b).

These transactions contributed to LuSE's market capitalisation increasing by 18.4% (or 19.4% in US Dollar terms) to K18,872.9 billion (US \$4,827 million) from K15,934.4 billion (US \$4,044.0 million). This also largely explained the increase in the all share index (excluding Zambia Consolidated Copper Mines Investment Holding (ZCCM-IH) by 17.7% (16.8% including ZCCM-IH) to 3,533.5 (2,116.1) from 3,001.5 (1,811.6) in the first half (see Appendix III, Table 8b).

Government Secondary Bond Market

The number of trades in the Government bonds market at the exchange declined to 8 from 17 recorded in the previous half. The combined face value of the Government securities traded in the period was K9.9 billion at a total cost of K8.9 billion compared with K65.8 billion with a total cost of K63.6 billion in period preceding the second half of 2007 (see Appendix III, Table 8c).

3.0 Monetary Policy Objectives and Instruments for January - June 2008

The monetary policy objective for the first half of 2008 is to bring inflation to 7.0% as at end-December, 2008. Consistent with this end-year target, monetary policy in the first half of 2008 is aimed at realising an inflation rate of no more than 6.6% at end-June 2008. In order to achieve the end-June 2008 inflation target, the Bank of Zambia will continue implementing appropriate monetary policy to keep broad money growth within the programmed path in order to mitigate any inflationary pressures (see Appendix II, Table 1). To this end, it is envisaged that that during the first half of 2008:-

- reserve money growth will be no more than 0.9%, and
- broad money growth will not exceed 0.9%.

However, there are challenges to the achievement of the inflation objective and money supply targets. The first is the management of the liquidity arising from the unspent Government balances from the 2007 fiscal period. Equally, the anticipated tax revenue from the mining sector once the proposed mines fiscal regime is implemented, will pose challenges to the monetary authorities if these foreign funds are not effectively sterilised. The second relates to the cost-push effects of expected higher prices of oil on the world market. Increased utility charges and power outages are likely to exert additional cost push inflationary pressures. Further, the adverse weather conditions during the 2007/2008 rainy season that have led to flooding in some parts of the country are likely to negatively affect food production in the 2007/2008 agriculture and consequently supply in the 2008/09 consumption period. This may result in higher food prices.

The Bank of Zambia will continue implementing appropriate monetary policy during the period January to June 2008 in order to keep money supply growth within the programmed levels to forestall any inflationary pressures. Continued reliance on indirect instruments of

monetary control, notably, OMO will be the predominant monetary policy strategy. This is expected to be supported by prudent fiscal management and enhanced coordination between fiscal and monetary policies. In addition, maintaining stability in the foreign exchange market by minimising volatility will contribute to the moderation of inflationary pressures. Furthermore, the reduction in value added tax to 16.0% from 17.5% will help to reduce consumer prices.

4.0 Monetary Policy Principles for the Period January 2008 to December 2009

For the two year period to December 2009, the Bank of Zambia will focus on maintaining single digit annual overall inflation and reducing it to 5.0% by end-2009 and beyond. To this end, monetary policy formulation and implementation will continue to be guided by the Government's broad macroeconomic policies as outlined in the Fifth National Development Plan (FNDP) and the 2008/2010 Medium-Term Expenditure Framework. Government's broad macroeconomic policies and objectives over the medium-term that are aimed at enhancing economic gains and growth as well as impacting favourably on poverty reduction include:

- (i) Achieving a real GDP growth rate of at least 7.0% per year. This growth is expected to be largely driven by the agricultural, mining, manufacturing, tourism and construction sectors;
- (ii) Reducing end-year inflation from 8.9% in December 2007 to 7.0% at end-December 2008 and bringing it further down to 5.0% at end-December 2009;
- (iii) Limiting domestic borrowing to 1.2% of GDP in 2008 and then 1.0% of GDP in 2009;
- (iv) Increasing the coverage of official gross international reserves at no less than 3.3 months of imports in 2008 to 4.4 months in 2009; and
- (v) Continuing to allow the exchange rate to be market-determined.

In the next two years, the Bank of Zambia will continue to be guided by market-based principles in the formulation and implementation of monetary policy. In this regard, the Bank of Zambia will continue to rely on market-based instruments of monetary policy to limit the growth in reserve and broad money, thereby contributing to the achievement of the inflation objective. Further, the monetary policy framework will continue to be reviewed to take account of developments in the financial markets and to enhance the efficacy of monetary policy.

Appendix I: Selected Macroeconomic Indicators

Description/Years	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Monetary Aggregates (K bn)																	
Reserve money (in K'billion)*	2,006.4	1,662.0	1,930.5	2,426.2	2,457.4	2,285.8	2,159.9	2,237.7	2,090.5	2,241.3	2,325.5	2,385.6	2,606.0	2,648.6	2,285.9	2,383.3	2,499.6
Growth Rate	9.79	-6.47	6.14	4.93	11.81	-6.98	-5.51	3.60	-6.59	7.21	3.67	-1.63	6.00	1.6	-15.9	4.1	4.8
Broad money (in K'billion)**	5,841.1	5,812.8	6,289.4	7,672.0	7,936.6	7,924.0	7,843.4	7,781.9	7,877.1	8,370.5	8,552.2	9,244.8	9,528.9	9,565.4	9,421.2	9,956.0	10,674.9
Growth Rate	3.32	-0.10	4.46	7.96	6.96	-3.86	-1.71	-0.76	1.22	6.26	2.23	8.03	3.10	0.4	-1.9	1.6	3.9
Net Claims on Government (in K'billion)	2,386.9	2,481.4	2,381.4	2,201.5	2,457.8	2,414.2	2,246.0	2,118.2	1,678.5	1,669.5	1,538.8	1,465.6	1,519.5	1,564.6	1,484.9	1,443.5	1,486.7
GDP Growth	5.0	-	-	-	5.9	-	-	-	-	-	-	-	-	-	-	-	-
Nominal GDP (in K' Billion)	32,648.6	-	-	-	38,966.5	-	-	-	-	-	-	-	-	-	-	-	-
Prices (%)	15.9	10.7	8.5	8.2	8.2	9.8	12.6	12.7	12.4	11.8	11.1	11.2	10.7	9.3	9.0	8.7	8.9
Inflation																	
Nominal interest and yield rates (aver. %)																	
Commercial Banks' rates																	
Commercial banks' weighted lending base rate	27.4	25.4	21.6	21.6	21.6	21.0	21.0	20.3	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.3
Average savings rate (>K100,000)	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Deposit rate (30 days, over K20 million)	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4
<i>Treasury bill yield rates</i>																	
Weighted TB rate	16.4	12.3	7.2	9.9	9.2	10.2	10.7	11.7	11.9	12.0	11.9	12.5	12.6	13.0	12.1	12.3	12.9
91-day	15.2	12.7	5.5	8.6	8.7	9.1	9.8	10.8	12.0	11.2	10.9	11.6	11.3	11.9	11.5	10.7	11.5
182-day	16.4	12.1	7.0	9.5	8.7	10.1	10.7	11.8	12.9	11.7	11.4	12.0	12.5	13.0	12.2	12.5	12.7
273-day	17.0	12.3	7.9	10.5	9.6	10.5	11.1	13.4	12.1	12.2	12.5	12.8	13.2	13.2	12.8	13.1	13.4
364-day	17.0	12.1	8.6	11.0	9.9	11.3	11.3	12.5	13.3	12.4	12.9	12.9	13.4	13.4	12.1	13.3	13.1
Government bonds Yield Rates																	
Weighted Bond Yield Rate																	
24 months	19.0	12.5	10.2	14.3	10.6	13.4	13.0	14.5	14.0	14.5	14.5	14.6	16.7	15.1	15.0	15.0	15.6
3 year	22.3	14.5	11.8	14.8	12.1	12.4	13.0	13.3	13.8	13.8	13.5	13.9	15.0	14.4	14.4	14.3	14.4
5 year	25.0	17.5	13.8	16.0	13.5	13.7	13.9	14.0	14.6	14.6	15.0	15.3	15.0	15.0	15.1	15.1	15.5
7 year	-	-	-	-	-	-	-	-	-	-	-	-	17.8	17.8	17.8	17.8	18.1
10 year	-	-	-	-	-	-	-	-	-	-	-	-	19.1	19.1	19.1	19.1	19.1
15 year	-	-	-	-	-	-	-	-	-	-	-	-	20.0	20.0	20.0	20.0	20.0
Real Interest and Yield Rates (%)																	
Commercial Banks' rates																	
Commercial banks' weighted lending rate	11.5	14.7	13.1	13.4	13.4	11.2	8.4	7.6	5.8	6.4	7.1	7.0	7.5	8.9	9.2	9.5	9.6
Average savings rate	(9.8)	(4.6)	(2.4)	(2.1)	(2.1)	(3.7)	(6.5)	(6.6)	(6.3)	(5.7)	(5.0)	(5.1)	(4.6)	(3.2)	(2.9)	(2.6)	(4.6)
Deposit rate (30 days, over K20 million)	(7.5)	(2.3)	(0.1)	0.2	0.2	(1.4)	(4.2)	(4.3)	(4.0)	(3.4)	(2.7)	(2.8)	(2.3)	(0.9)	(0.6)	(3.9)	(3.9)
<i>Treasury bill yield rates</i>																	
Weighted TB rate	0.5	1.6	(1.3)	1.7	1.0	0.4	(1.9)	(1.0)	(0.5)	0.2	0.8	1.3	1.9	3.7	3.0	3.6	4.2
91-day	(0.7)	2.0	(3.0)	0.4	0.5	-0.7	-2.8	-1.9	-0.4	-0.6	-0.2	0.4	0.6	2.6	2.5	2.0	2.8
182-day	0.5	1.4	(1.5)	1.3	0.5	0.3	-1.9	-0.9	0.5	-0.1	0.3	0.8	1.8	3.7	3.2	3.8	4.0
273-day	1.1	1.6	(0.6)	2.3	1.4	0.7	-1.5	-0.9	1.0	0.3	1.1	1.3	2.1	3.9	3.2	4.1	4.4
364-day	1.1	1.4	0.1	2.8	1.7	1.5	-1.3	-0.2	0.9	0.6	1.8	1.7	2.2	4.1	3.1	4.6	4.7
Government bonds Yield Rates																	
Weighted Bond rate																	
24 months	3.1	1.8	1.7	6.1	2.4	3.6	0.4	1.8	1.6	2.7	3.4	3.4	6.0	5.8	6.0	6.3	6.9
3 year	6.4	3.8	3.3	6.6	3.9	2.6	0.4	0.6	1.4	2.0	2.4	2.7	4.3	5.7	5.3	5.6	5.7
5 year	9.1	6.8	5.3	7.8	5.3	3.9	1.3	1.3	2.2	2.8	3.9	4.1	4.6	5.9	6.4	6.4	6.8
7 year	-	-	-	-	-	-	-	-	-	-	-	-	7.1	8.5	8.8	9.1	9.1
10 year	-	-	-	-	-	-	-	-	-	-	-	-	8.4	9.8	10.1	10.4	10.4
15 year	-	-	-	-	-	-	-	-	-	-	-	-	9.3	10.7	11.0	11.3	11.3
Exchange rates (average K/US \$)																	
Commercial banks' weighted selling rate	3,484.71	3,315.66	3,499.21	4,148.71	4,142.75	4,205.40	4,258.97	4,270.15	4,171.19	4,028.71	3,908.59	4,023.67	3,976.17	3,848.30	3,784.80	3,766.67	3,645.77
Bank of Zambia mid rate***	3,416.34	3,294.74	3,470.61	4,085.17	4,127.83	4,221.06	4,254.02	4,258.53	4,161.47	4,013.82	3,780.25	3,830.16	4,001.43	3,995.75	3,831.36	3,766.67	3,636.68
Real sector																	
<i>Mining output (tonnes)</i>																	
Copper	42,300.0	43,618.5	43,213.3	39,172.0	38,350.3	36,299	36,256	39,422	38,047	39,941	42,288	43,395	48,018.0	48,859.9	42,655.0	42,812.5	43,982.00
Cobalt	478.8	456.0	424.5	432.5	416.4	237	239.6	339.4	355.3	521.6	406.9	468.0	460.3	443.2	365.6	420.4	403.5
<i>Metal Earnings (US \$mn)</i>																	
Copper	139.0	239.2	245.3	303.9	216.1	129.3	197.1	295.3	223.3	264.6	318.2	275.8	305.8	361.3	241.7	270.0	258.9
Cobalt	12.3	11.6	10.8	16.3	14.6	10.3	12.4	16.8	20.8	27.3	24.1	24.2	20.7	20.0	23.3	22.8	22.8
Total	151.3	251.0	256.1	320.2	232.7	139.6	209.5	314.1	244.1	291.9	342.3	300.0	326.5	381.3	265.0	304.3	281.7
External sector (US \$ mn)																	
Trade Balance	-23.6	64.60	107.1	135.1	22.9	-125.2	25.6	116.6	54.1	58.3	99.9	41.2	63.7	65.2	(60.1)	(22.9)	-48
Exports, c.i.f.	205.4	298.20	306.7	398.7	304.6	200.1	285.7	381.6	319.7	378.8	424.7	395.8	412.2	465.9	343.3	385.1	357.8
Imports, c.i.f.	229.0	-233.60	(199.6)	(283.6)	(281.7)	(325.3)	(240.1)	(285.0)	(285.5)	(320.5)	(324.7)	(384.5)	(348.5)	(384.7)	(403.5)	(408.0)	-405.7
Gross Official Reserves (US \$mn)	425.7	437.40	509.0	663.3	706.2	583.4	600.6	651.5	703.5	744.9	947.4	971.1	951.2	1,026.8	987.9	1,062.7	1,051.4

Source: Bank of Zambia
* Reserve money is narrowly defined, ** Estimated figure for the month under Review, ***Based on BoZ annual average mid-exchange rate, - Not available.

Appendix II: The Poverty Reduction and Growth Facility (PRGF) Arrangement

During the reviewed period, the International Monetary Fund (IMF) Mission visited the country from September 12 26, 2007 to assess Zambia's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement and conduct Article IV Consultations.

The successful completion of the Article IV Consultations resulted in a disbursement of SDR5.5 million (about US \$8.2 million) on 28th September 2007. The next IMF Mission to be conducted in the first quarter of 2008 is expected to review and conclude performance under the PRGF arrangement in 2007 and agree on a new Fund programme with the Zambian Authorities.

During the second half of 2007, Zambia received a total of US \$68.4 million from its cooperating partners, namely; the European Union (US \$46.9 million), Germany (US \$6.9 million), and Norway (US \$14.6 million) compared with US \$79.1 million received in the first half of 2007. The debt service payments to various creditors, excluding IMF debt service, amounted to US \$36.5 million compared with US \$24.0 million paid in the first half of 2007.

With regard to performance against the indicative quantitative benchmarks, preliminary data indicate that as at end-December 2007, the benchmarks on Net Domestic Financing of Government (NDF), Net Domestic Assets (NDA) of the Bank of Zambia, and the Unencumbered International Reserves (UIR) were all observed. The UIR were US \$918.9 million as at end-December 2007, and were above the adjusted floor by US \$224.9 million. The NDA and the NDF were below their adjusted ceilings by K619.1 billion and K886.0 billion, respectively. In terms of performance under the structural programme, most benchmarks and performance criteria were observed.

The benchmark on UIR was met largely due to the Bank's purchases of foreign exchange from the market. The NDA benchmark was met on account of lower than programmed reserve money growth and improvement in the net foreign assets (NFA) of the Bank while the NDF of Government was met on account of lower than programmed expenditure.

The macroeconomic framework for 2008-2010 builds on the gains already made and is set within the framework of the Fifth National Development Plan (FNDP), which is focused on reducing poverty levels by achieving a high rate of economic growth through the implementation of prudent fiscal, monetary and structural policies that strengthen governance and improve the environment for private sector development. The broad macroeconomic objectives for 2008 include: (i) attaining real GDP growth of at least 7%; (ii) containing inflation to no more than 7%; (iii) limiting domestic borrowing to 1.2% of GDP; and (iv) increasing gross international reserves to not less than 3.6 months of import cover (see Table 1).

Table 1: Macroeconomic Outturn and Targets in 2007, and Targets for 2008

Description	End-December 2007	End-December 2007	End-December 2008
	Targets	Outturn	Targets
Real GDP growth rate (%)	7.0	6.2*	7.0
CPI Inflation, end period (%)	9.0	8.9	7.0
CPI Inflation, annual average (%)	11.3	10.7	8.0
Gross Official Reserves (in months of imports)	2.4	3.0	3.6
Broad Money growth (%)	6.0	25.9	3.9
Budget deficit, excluding grants (% of GDP)	7.5	2.0	6.5
Domestic financing of the Budget (% of GDP)	1.2	1.0	1.2

Source: Bank of Zambia Statistics Fortnightly and Central Statistics Office, The Monthly

* Preliminary

Appendix III: Statistical Tables and Charts

Table 1: Trade Data in US \$ million (c.i.f), 2006 - 2007

	Jan-June, 2006	July-Dec, 2006	Jan-June, 2007	Jul-Dec, 2007
Trade Balance	521.9	376.2	229.3	70.6
Exports, c.i.f	1,869.6	1,957.1	1,970.5	2,354.2
Metals	1,534.7	1,549.4	1,541.5	1,858.8
<i>Copper</i>	1,470.4	1,467.6	1,427.9	1,722.5
<i>Cobalt</i>	64.3	81.8	113.6	136.3
Non Metals	334.9	407.7	429.0	495.4
<i>Export Audit Adjustment</i>	0.5	0.5	0.6	0.6
Total	334.4	407.2	428.4	494.8
<i>Copper Wire</i>	84.8	90.2	90.3	105.1
<i>Sugar</i>	22.5	31.8	28.4	46.1
<i>Burley Tobacco</i>	26.1	44.5	29.4	33.8
<i>Cotton Lint</i>	20.1	42.2	14.5	22.6
<i>Electric Cables</i>	43.3	60.4	73.0	77.4
<i>Fresh Flowers</i>	15.9	18.8	18.0	19.2
<i>Cotton Yarn</i>	9.5	9.5	7.6	4.8
<i>Fresh Fruit/Vegetables</i>	12.5	12.7	12.5	12.0
<i>Gemstones</i>	8.8	9.3	17.0	11.6
<i>Gas oil</i>	3.3	7.0	11.9	9.0
<i>Electricity</i>	1.9	3.8	5.1	4.1
<i>Others</i>	60.0	84.0	119.7	149.0
Imports c.i.f./1	(1,362.7)	(1,347.7)	(1,741.2)	(2,283.6)

Source: Bank of Zambia, Statistics Fortnightly
*Figures for December 2007 are preliminary.

Table 2: Metal Production, Export Volumes and Prices; 2006 - 2007

Description	Copper					Cobalt				
	Sales Tonnes	Production Tonnes	Sales US \$'000	Price US\$/Tonne	Price US\$/ pound	Sales Tonnes	Production Tonnes	Sales US \$'000	Price US\$/Tonne	Price US\$/ pound
Jan-June 2006	249,425	264,252	1,470,437	5,895.31	2.67	2,348	2,393	64,307	27,392.71	12.43
Quarter 1, 2006	119,665	125,880	555,810	4,644.71	2.11	1,203	1,184	29,843	24,805.28	11.25
Quarter 2, 2006	129,760	264,252	1,470,437	5,895.31	2.67	2,348	2,393	64,307	27,392.71	12.43
Jul - Dec 2006	226,680	234,014	1,467,600	6,474.33	2.94	2,315	2,266	81,771	35,316.29	16.02
Jan-June 2007	216,101	236,43	1,427,892	6,607.52	3.00	2,075.30	2,121	113,599	54,738.64	24.83
Quarter 1, 2007	108,452	113,820	621,728	5,732.55	2.60	811	859	41,501	51,153.95	23.20
Quarter 2, 2007	107,649	122,623	806,163	7,488.81	3.40	1,264	1,262	72,097	57,039.48	25.87
Jul-Dec 2007	237,336	267,941	1,722,549	7,257.84	3.29	2,567	2,554	136,291	53,081.35	24.08

Source: Bank of Zambia, Statistics Fortnightly
*Figures for December 2007 are preliminary.

Table 3: Imports by Commodity Groups in US \$ millions (CIF); 2006 - 2007

Description	2006		2007		% Change (Jan-Jun. 2007- Jul-Dec 2007)
	Jan-June	July-Dec	Jan-June	Jul-Dec*	
Food Items	134.5	105.5	84.3	122.8	45.6
Petroleum Products	179.0	275.1	223.0	269.9	21.0
Fertilisers	43.0	54.1	58.2	90.9	56.1
Chemicals	179.5	185.3	208.6	271.3	30.0
Plastic and Rubber Products	71.1	81.6	91.0	114.5	25.7
Paper and Paper Products	30.9	51.6	28.2	32.9	16.8
Iron and Steel	93.2	108.1	134.6	209.0	55.2
Industrial Boilers & Equipment	244.4	277.1	396.0	562.7	42.1
Electrical Machinery & Equipment	131.1	127.0	151.2	213.7	41.3
Vehicles	131.8	172.8	167.1	226.0	35.2
Other Imports	108.8	142.7	198.6	169.7	(14.6)
Total Imports	1,347.7	1,580.9	1,741.2	2,283.6	31.2

Source: Central Statistical Office, The Monthly
*Figures for December 2007 are preliminary.

Table 4: Sources of Reserve Money Growth, Jan. Dec. 2007

Description	Jul - Dec 2006		Jan - Jun 2006	
	Total (K'bn)	Contribution to Reserve Money Growth (%)	Total (K'bn)	Contribution to Reserve Money Growth (%)
1/ Net Foreign Assets (a+b+c+d)	519.2	21.1	160.1	6.9
a) Net Purchases from Govt	171.6	7.4	155.2	6.7
b) Net Purchases from non-Government	249.3	10.7	(18.1)	(0.8)
c) Bank of Zambia own use of forex	(4.9)	(0.2)	(8.8)	(0.4)
d) Change in stat. reserve deposits forex balances	103.1	4.4	31.8	1.4
2/ Net Domestic Credit (a+b)	(658.7)	(26.7)	17.9	0.8
a) Autonomous influences	3,346.4	144.0	3,211.9	138.2
Maturing Open Market Operations	4,175.9	179.7	2,977.9	128.2
Direct Govt Transactions	(386.2)	(15.8)	504.9	21.7
TBs and Bonds Transactions	(466.2)	(20.1)	(297.3)	(12.8)
Claims on non-banks (Net)	22.9	0.9	26.6	1.1
b) Discretionary influences	(4,005.1)	(172.4)	(3,194.0)	(137.5)
Open Market Operations	(4,074.2)	(175.4)	(3,269.7)	(140.7)
i. Repos entered into (+ve)	149.5	6.4	112.0	4.8
ii. Treasury bills outright sale (-ve)	(156.2)	(6.7)	(502.6)	(21.6)
iii. Term Deposits Taken (-ve)	(4,067.5)	(175.1)	(2,879.1)	(123.9)
Treasury bill Rediscounts	30.9	1.3	29.9	1.3
Other claims (Floats, Overdrafts)	38.2	1.6	45.7	1.9
Change in Reserve Money	(139.5)	(5.6)	178.0	7.7

Source: Bank of Zambia, Statistics Fortnightly

Table 5: Indicators of Bidding Behaviour in the Government Securities Market,¹ Jan-Dec. 2007

	Annual Average Amt's Offered (K blns)		Average Bid Amt's (K blns)		Average Excess Demand (K blns) ²		Average Subscription Rate (%) ³	
	Jan - Jun, 07	Jul - Dec, 07	Jan - Jun, 07	Jul - Dec, 07	Jan - Jun, 07	Jul - Dec, 07	Jan - Jun, 07	Jul - Dec, 07
91-day bills	19.6	16.9	19.6	12.7	0.0	-4.2	100.0	75.1
182-day bills	22.5	21.1	22.4	15.5	-0.1	-5.6	99.6	73.5
273-day bills	19.4	18.9	20.9	14.4	1.5	-4.5	107.7	76.2
364-day bills	38.5	43.1	56.7	35.3	18.2	-7.8	147.3	81.9
TOTAL	100.0	100.0	117.6	77.9	19.8	19.8	113.7	76.6
2-year bond	30.0	27.1	29.7	29.1	-0.3	2.0	99.0	107.4
3-year bond	40.0	35.7	36.4	34.9	-3.6	-0.8	91.1	97.8
5-year bond	50.0	44.3	37.5	61.8	-12.5	17.5	75.0	139.5
7-year bond	0.0	17.5	0.0	50.7	0.0	33.2	0.0	289.7
10-year bond	0.0	17.5	0.0	32.1	0.0	14.6	0.0	183.4
15-year bond	0.0	10.0	0.0	24.0	0.0	14.0	0.0	240.0
TOTAL	120.0	120.0	103.6	103.6	-16.4	13.5	83.4	176.3

¹ Treasury bills are offered weekly while Government bonds are offered monthly

² Government bonds with tenors of 7, 10 and 15 years were first issued in August 2007

³ Average Excess Demand = Average Amounts Bid less Average Amounts Offered, (-ve = shortfall, +ve = excess)

⁴ Average Subscription Rate = Average bid amounts as percentage of average amount offered

Table 6: Shares of Total Loans & Advances by Sector, Jun. 2006- Dec. 2007

Sector	Jun-06	Dec-06	Jun-07	Dec-07
Agriculture, forestry, fishing and hunting	26.2	27.2	23.4	21.0
Mining & Quarrying	4.1	4.3	5.1	4.0
Manufacturing	12.5	13.3	11.2	10.7
Electricity, Gas, Water & Energy	5.5	3.2	2.9	4.9
Construction	1.9	2.2	3.4	3.5
Wholesale & Retail Trade	14.8	14.5	13.8	10.8
Restaurants & Hotels	2.3	2.0	1.8	1.2
Transport, Storage & Communications	7.1	8.0	10.0	7.2
Financial Services	4.7	4.7	7.3	4.2
Community, Social and Personal Services	2.4	2.5	1.8	1.6
Real Estate	4.2	4.8	1.9	2.2
Personal Loans	11.3	11.2	14.3	14.7
Others	3.0	2.2	3.1	14.0

Source: Bank of Zambia Statistics Fortnightly

Table 6a: Shares of Total Loans & Advances by Sector (Excluding Foreign Currency Loans), Jun. 2006-Dec. 2007

Sector	Jun-06	Dec-06	Jun-07	Dec 07
Agriculture, forestry, fishing and hunting	25.0	26.5	22.5	17.6
Mining & Quarrying	3.7	3.9	4.6	1.1
Manufacturing	12.2	12.9	10.9	8.4
Electricity, Gas, Water & Energy	5.9	3.2	3.0	2.5
Construction	2.0	2.3	3.5	4.2
Wholesale & Retail Trade	15.0	14.8	13.5	10.0
Restaurants & Hotels	2.3	1.9	1.8	1.1
Transport, Storage & Communications	7.4	8.2	10.4	8.3
Financial Services	4.4	4.4	7.5	3.7
Community, Social and Personal Services	2.4	2.5	1.8	0.7
Real Estate	4.4	5.0	1.8	2.2
Personal Loans	12.6	12.2	15.5	21.6
Others	2.9	2.1	3.1	18.6

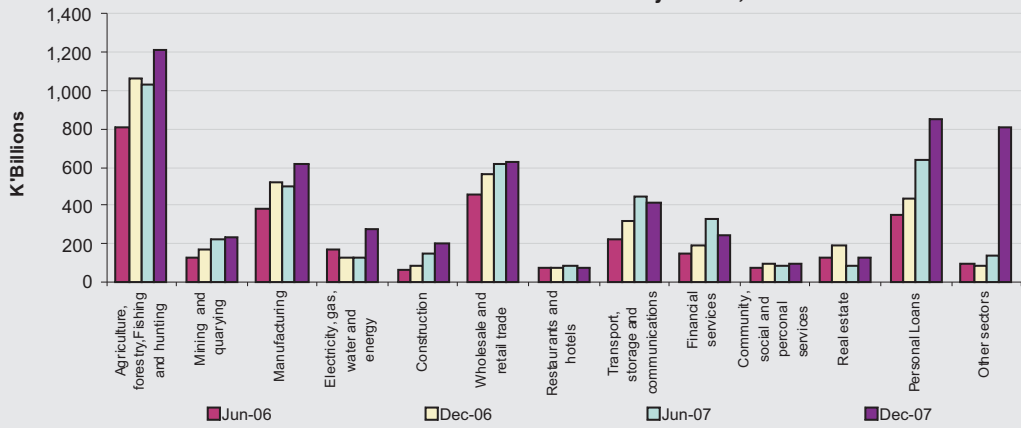
Source: Bank of Zambia Statistics Fortnightly

Table 6b: Shares of Foreign Exchange Loans & Advances by Sector, Jun. 2006-Dec. 2007

Sector	Jun-06	Dec-06	Jun-07	Dec 07
Agriculture, forestry, fishing and hunting	36.2	34.1	33.0	28.1
Mining & Quarrying	7.4	9.0	10.9	10.1
Manufacturing	14.9	17.2	14.9	15.4
Electricity, Gas, Water & Energy	1.8	2.9	2.2	9.7
Construction	1.7	1.6	1.9	2.2
Wholesale & Retail Trade	13.8	10.8	16.5	12.5
Restaurants & Hotels	3.1	2.5	2.2	1.3
Transport, Storage & Communications	4.1	4.9	5.5	4.9
Financial Services	7.7	8.5	4.8	5.2
Community, Social and Personal Services	2.7	2.3	2.2	3.6
Real Estate	2.9	2.9	2.3	2.2
Personal Loans	0.4	0.2	0.4	0.3
Others	3.3	3.0	3.1	4.5

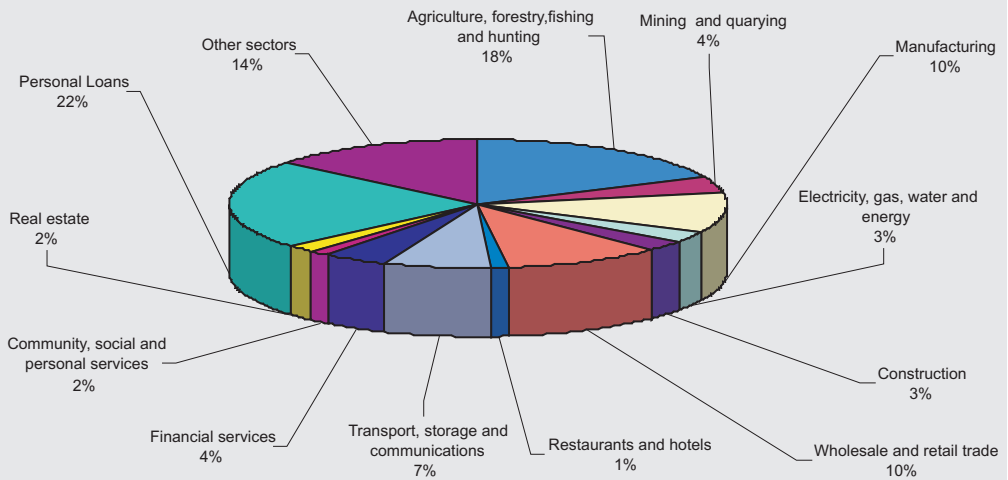
Source: Bank of Zambia Statistics Fortnightly

Chart 1: Commercial Banks Loans and Advances by Sector, Jun - 06 to Dec - 07



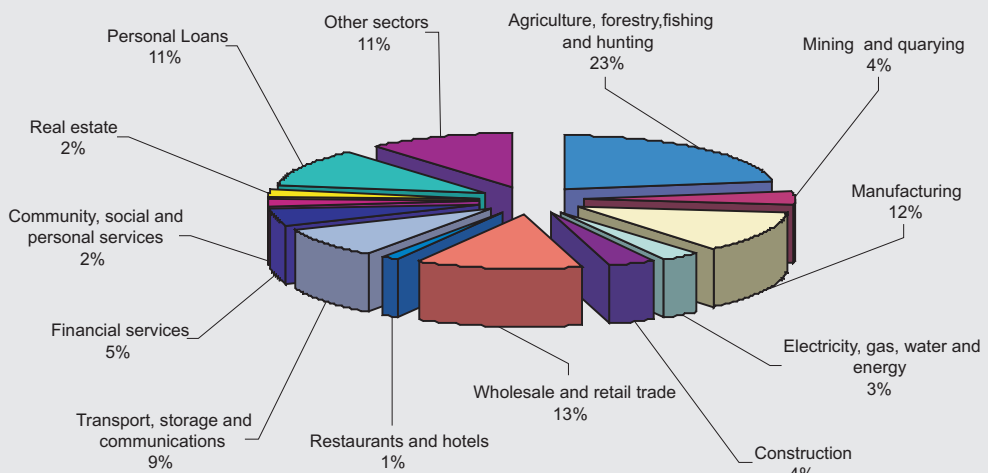
Source: Bank of Zambia Statistics Fortnightly

Chart 2: Structure of Loans and Advances (Monthly Average, July - December 2007)



Source: Bank of Zambia Statistics Fortnightly

Chart 3: Commercial Banks Loans and Advances (Excluding Foreign Currency Loans) [Monthly Average], Jul - Dec 2007



Source: Bank of Zambia Statistics Fortnightly

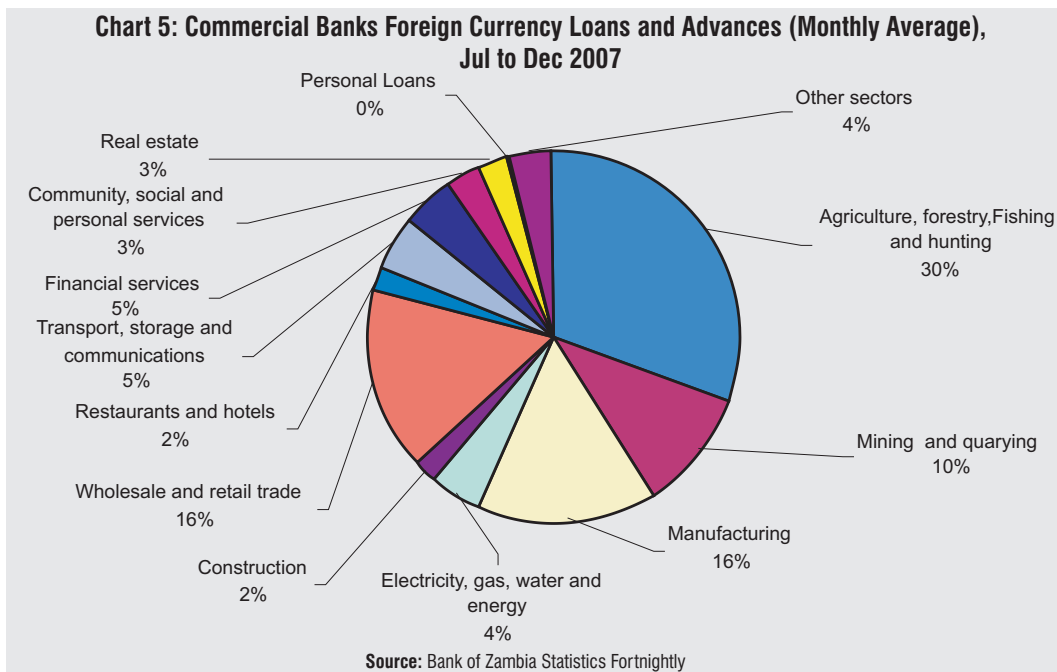
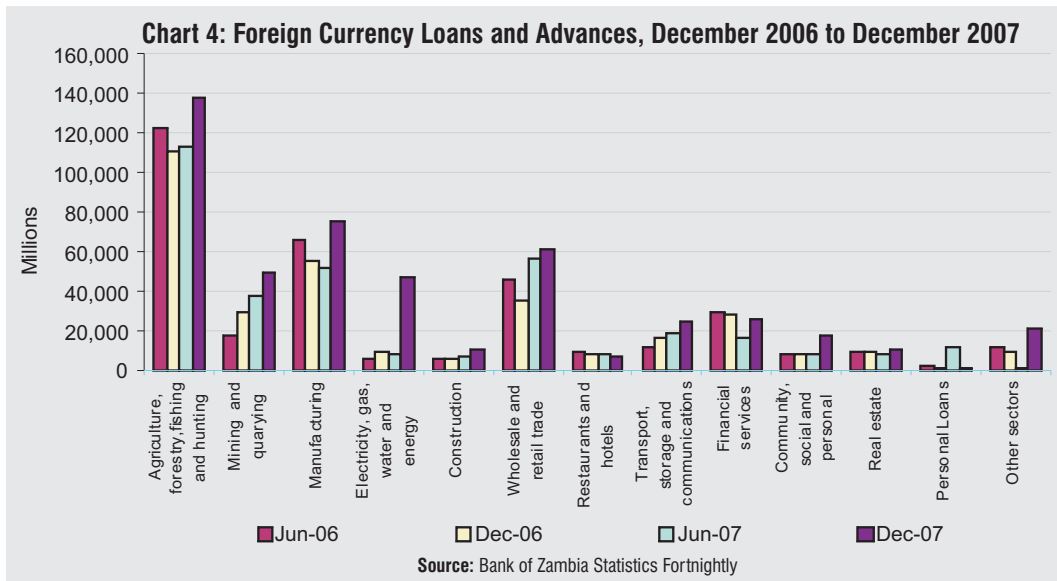


Table 7: Central Government Domestic Fiscal Operations, Second Half 2007 (K' billion)

Description	Annual		First Half		Second Half	
	Target	Target	Prelim	Target	Prelim	Variance (%)
Total Revenue	8,707.4	8,707.4	4,262.2	4,549.3	4,843.3	6.5
Total Domestic Revenue	8,125.1	8,125.1	3,989.3	4,246.7	4,534.3	6.8
Tax Revenue	7,807.3	7,807.3	3,844.1	4,076.2	4,339.5	6.5
Non-Tax Revenue	317.8	317.8	145.2	170.5	194.8	14.3
Programme Grants	582.3	582.3	272.9	302.6	309.0	2.1
Total Domestic Expend.	9,617.3	9,617.3	4,422.9	5,202.6	5,102.4	-1.9
Current Expenditure	8,304.6	8,304.6	3,953.6	4,487.9	4,531.4	1.0
Wages and Salaries	3,513.0	3,513.0	1,630.5	1,849.1	1,900.4	2.8
PSRP	102.0	102.0	15.0	67.5	20.0	-70.4
RDCs	1,889.3	1,889.3	902.6	1,115.7	1,058.6	-5.1
<i>O/w Arrears</i>	227.0	227.0	93.3	135.0	116.6	-13.6
Transfers and Pensions	1,414.0	1,414.0	684.8	751.1	763.9	1.7
Domestic Debt Interest	656.2	656.2	332.8	345.8	372.9	7.8
External Debt	182.7	182.7	100.1	89.0	138.9	56.1

Source: Ministry of Finance and National Planning (Budget office) and Bank of Zambia Statistics Fortnightly

Table 8a: Number of Trades and Volume of Shares Trades

Description	No of Trades	No of Trades	No of Trades	Volume	Volume	Volume
	Domestic	Foreign	Total	Domestic	Foreign	Total
First Half 2007	2,621	164	2,785	594,776,828	642,816,636	1,237,593,464
Second Half 2007	3,209	203	3,412	730,319,579	832,326,873	1,562,646,452
% Δ	22.4	23.8	22.5	22.8	29.5	26.3

Table 8b: Sale and Market Capitalisation

Description	Sales	Sales	Sales	Market	Market	All Shares Index	
	Domestic	Foreign	Total	Capitalisation	Capitalisation	Excluding	Including
	(Turnover (K Billion))	(Turnover (K Billion))	(Turnover (K Billion))	Kwacha (K Million)	Dollar (US Million)	ZCCM-IH	ZCCM-IH
First Half 2007	133.6	41.5	175.0	15,934,431.0	4,044.0	3,001.5	1,811.6
Second Half 2007	71.5	46.4	117.9		4,827.0	3,533.5	2,116.1
% Δ	(46.48)	11.99	(32.63)	18,872,945.0	19.36	17.7	16.8

Table 8c: LuSe Government Bond Market Trading

Description	No of Trades	Face Value (K Billion)	Value (Cost) (K Billion)
First Half 2007	8	9.9	8.7
Second Half 2007	17	65.7	63.6

Appendix IV: Composition of the Monetary Policy Advisory Committee (MPAC)

- | | |
|-----------------------------|----------------------------------|
| 1. Dr Caleb M. Fundanga | Governor |
| 2. Dr Denny H. Kalyalya | Deputy Governor - Operations |
| 3. Dr Tukiya Kankasa-Mabula | Deputy Governor - Administration |
| 4. Mr Evans Chibiliti | Secretary to the Treasury |
| 5. Ms Justina Wake | Member |
| 6. Dr Chiselebwe Ng'andwe | Member |
| 7. Ms Beatrice Nkanza | Member |
| 8. Mr Dale Mudenda | Member, University of Zambia |
| 9. Prof. John Lungu | Member, Copperbelt University |
| 10. Mr Romance C. Sampa | Member |
| 11. Mr Peter Mukuka | Member |
| 12. Dr Anthony Mwanaumo | Member |

